

## **Review of Key Papers Draft 1**

### **Title: Regional Unemployment and Human Capital in Transition Economies (1)**

**Authors:** Stepan Jurajda and Katherine Terrell

**Source :** IZA DP No. 3176 November 2007

#### **Abstract**

“Differences in regional unemployment in post-communist economies are large and persistent. We show that inherited variation in human-capital endowment across the regions of four such economies explains the bulk of regional unemployment variation there and we explore potential explanations for this outcome through related capital and labor mobility patterns. The evidence suggests that regions with high inherited skill endowments attract skilled workers as well as FDI. This mobility pattern, which helps explain the lack of convergence in regional unemployment rates, is consistent with the presence of complementarities in skill and capital. Nevertheless, we find no supporting evidence of human capital wage spill overs implied by the complementarities story. Unemployment of the least-skilled workers appears lower in areas with a higher share of college-educated labor and future research is needed to see if this finding as well as the observed migration pattern arise from different adjustments to regional shocks by education level brought about in part by Central European labor-market institutions, such as guaranteed welfare income raising effective minimum wages.”

#### **Key Messages**

- Human capital is an important factor when explaining regional variation in employment rates.
- Different regions have different amounts of human capital endowment which in turn impact on the variation in regional employment rates.
- Highly educated people and investment capital ‘flow’ toward areas with higher concentrations of educated people.
- Institutions contribute to a lack of movement of unskilled workers and a lack of convergence in their employment rates across regions.

### **Title: Regional Unemployment and Human Capital in Transition Economies (2)**

**Authors:** Stepan Jurajda and Katherine Terrell

**Source:** CERGE-EI Prague December 2007

#### **Abstract**

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### **Title: How a Mandatory Activation Program Reduces Unemployment Durations: The Effects of Distance**

**Authors:** Brian Krogh Graverson and Jan C van Ours

**Source:** IZA DP No.4079 March 2009

### **Abstract**

“In an experimental setting some Danish unemployed workers were assigned to an activation program while others were not. Unemployed who were assigned to the activation program found a job more quickly. We show that the activation effect increases with the distance between the place of residence of the unemployed worker and the place where the activation took place. We also find that the quality of the post-unemployment jobs was not affected by the activation program. Both findings confirm that activation programs mainly work because they are compulsory and unemployed don’t like them.”

### **Key Messages**

- Assigning unemployed workers to an activation programme resulted in them gaining a job more quickly than those who were not assigned to an activation programme.
- Those compulsorily assigned to the activation programme searched for work with greater intensity than people who were not assigned to the programme suggesting that the activation programme reduced the value of being unemployed.
- The further away from the persons normal place of residence, the activation programme was, the quicker the person found a job.

### **Title: Unemployment, Social Capital, and Subjective Well-Being**

**Author:** Rainer Winkelmann.

**Source:** IZA DP No. 2346 September 2006.

### **Abstract**

“It has been shown in past research that unemployment has a large negative impact on subjective well-being of individuals. In this paper, I explore whether and to what extent people with more social capital are sheltered from the harmful effects of unemployment. Using data from the German Socio-Economic Panel 1984-2004, I find that social capital is an important predictor of well-being levels, but there is no evidence that it moderates the effect of unemployment on well-being. The well-being loss, in turn, is shown to predict job search and re-employment. Possible reasons for these findings are discussed, and suggestions for future research are given.”

### **Key Messages**

- Social capital has a significant positive effect on well being levels.
- It is not clear that becoming unemployed significantly affected an individuals levels of well being – but this finding may be due to imprecise measurement.
- An individuals sense of well being did significantly affect their search for employment, with those who felt larger losses of well being searching more actively, and more likely to find a job.
- Could it be that high levels of local social capital actually increase the duration of unemployment? This raises the question as to whether its better to have low levels of social capital? This author thinks not, but more work needs to be done.

### **Title: Counseling the Unemployed: Does It Lower Unemployment Duration and Recurrence?**

**Authors:** Bruno Crepon, Muriel Dejemeppe and Marc Gurgand.

**Source:** IZA DP No. 1796 October 2005

### **Abstract**

“This article evaluates the effects of intensive counselling schemes that are provided to about 20% of the unemployed since the 2001 French unemployment policy reform (PARE). Several of the schemes are dedicated at improving the quality of assignment of workers to jobs. As a result, it is necessary to assess their impact on unemployment recurrence as well as unemployment duration. Using duration models and a very rich data set, we can identify heterogeneous and time-dependent causal effects of the schemes. We find significant favourable effects on both outcomes, but the impact on unemployment recurrence is stronger than on unemployment duration. In particular, the program shifts the incidence of recurrence, one year after employment, from 33 to 26%. This illustrates that labor market policies evaluations that consider unemployment duration alone can be misleading.”

### **Key Messages**

- Providing intensive counselling which is aimed at improving the quality of the assignment of workers to jobs does shorten the duration of unemployment.
- Less known in the policy/strategy literature is the fact the provision of intensive counselling reduces the likelihood of a worker becoming unemployed again.

### **Title: Demographics and Unemployment.**

**Authors:** Tryggvi Thor Hebertsson, Edmund S. Phelps and Gylfi Zoega.

**Source:** Institute of Economic Studies Working Paper ISSN-1011-8888 December 2001

### **Abstract**

“This paper introduces the age structure of the population into the analysis of medium term unemployment swings. We incorporate age-related features into the Shapiro-Stiglitz shirking model and find that the observed age pattern of unemployment can be explained in terms of the model. Moreover, we find that changes in the age composition of the population – in particular the ageing of the baby-boom generation – has caused OECD wide unemployment to be 50 basis points lower than what it currently is. The magnitude of his effect varies between countries though but it is never larger than 140 basis points (France and Italy). More importantly, the age effect on the labour participation rate is considerable - the rates would have fallen by almost 5 percent point more than observed in the OECD if the baby-boom generation had not come of age. There is also a statistical relationship between several macroeconomic shocks and demographic factors. In particular, the larger the share of working-age individuals, the higher is the ratio of

investment to GDP, and the higher the share of the 25-34 year old cohort, the greater the rise in stock prices in recent years.”

### **Key Messages**

- The compositional effect of demographic changes do not explain the large swings in unemployment observed across the OECD countries.
- The presence of the ‘baby boomers’ generation in the current working population appears to have resulted in a 50 basis point reduction in unemployment than if the age distribution of the workforce were the same as in 1960.

### **Title: Reduction in the Long-Term Unemployment of the Elderly: A Success Story from Finland**

**Authors:** Tomi Kyyra and Ralf A. Wilke.

### **Non-technical Summary**

“In European countries unemployment levels are typically higher and unemployment durations are often longer than in the United States. These unemployment differences have been the focus of much political and academic debate in recent years. The unemployment compensation system, with more generous benefit levels and longer entitlement periods, is often blamed to be responsible for much of the European unemployment problem. In this paper we show that this is indeed true for a large share of the long-term unemployment of the elderly in Finland. Among the European countries Finland has performed relatively poorly in terms of unemployment. As a consequence of the deep depression in the early 1990s, the Finnish unemployment rate peaked to almost 20 percent in 1994. Despite rapid economic growth over the latter part of the 1990’s, unemployment has stuck at a high level and the fraction of the long-term unemployed has increased alarmingly. As in other European countries, such as Germany and France, the share of elderly long-term unemployed is large. The Finish unemployment tunnel scheme is often blamed to be responsible for that. This scheme allows the elderly unemployed to collect unemployment benefits up to the age of 60, when they can retire via a particular unemployment pension. In 1997 the eligibility age of this scheme was raised from 53 to 55. We consider changes in the risk of unemployment, unemployment durations, and the exit states before and after the reform. In the duration analysis a flexible treatment design is adopted by allowing for quantile treatment effects. We apply three different non- and semi-parametric methods, which all produce robust and coherent results. After the reform the group aged 53-54 has a lower risk of unemployment, shorter unemployment durations, higher exit rates to employment and it is not anymore distinguishable from the group aged 50-52. We provide calculations of the expected save in unemployment benefit transfers due to the reform and found that it is in the range of 100 million Euros per age cohort.”

### **Key Messages**

- In Finland scheme existed called the Unemployment Tunnel (UT) which enabled older workers who were unemployed to enter ‘unemployment retirement.’ This paper concludes that the presence of the scheme increased the likelihood that older workers would lose their jobs, as employers exploited the availability of the scheme to get rid of older workers.
- When the scheme was removed the authors of the study noted a large decrease in the numbers entering unemployment, and a large increase in those unemployed moving into work, suggesting that generous benefits and long entitlement periods may contribute to the unemployment problem.

**Title: Basic Concepts and Principles of Social Experimentation.**

**Author:** Unknown

**Source:** Unknown

This is the second in a series of papers on the design, implementation, and analysis of social experiments. In the previous paper, we defined a social experiment as a comparison of the outcomes of two or more groups randomly assigned to different policy regimes. In this paper, we explore in more detail the considerations involved in constructing this comparison and in interpreting the resultant differences in outcomes. We discuss the basic concepts and principles involved in:

- Deciding whether to experiment;
  - Specifying the experimental treatment;
  - Specifying the outcomes of interest;
  - Interpreting the treatment-control service differential;
- and,
- Interpreting treatment-control differences in outcomes.

**Title:Active Ageing Unlocking the Potential of the over 50's**

**Authors:** John White and Paul Kingston

**Source:** A Power point Presentation.

Powerpoint (insert)

**Title: Designing a Demonstration Project : An Employment Retention and Advancement Demonstration for Great Britain.**

**Authors:** Stephen Morris, David Greenberg, James Riccio, Bikash Mittra, Hazel Green, Stephen Lissenburgh and Richard Blundell.

**Source:** Government Chief Social Researchers Office. ISBN 0 7115 0445 7

This document presents a comprehensive research design for evaluating the Employment Retention and Advancement (ERA) Demonstration Project. The demonstration will test a new strategy for improving job retention and advancement for low-wage workers in Britain. It represents a potentially important step in strengthening the country's evolving welfare-to-work and anti-poverty policies. Although a number of current measures help those on the margins of employment retain work and improve their earnings, policy to date has largely focused on reattaching people to the labour market and makes less provision for assisting people once in work. The ERA Demonstration also promises to make a significant contribution to the process of evidence-based policy making in Britain. It differs from many of the pilot projects seen recently in Great Britain, in that there are no plans at the outset to roll out ERA on a national scale before results of the evaluation are known. Moreover, the effectiveness of the intervention will be tested as a large-scale, multi-site, random assignment social experiment. Testing a cutting-edge – but unproven – policy innovation through a demonstration project utilising random assignment will help determine whether projects of this type can make a useful contribution to devising effective social policy in Great Britain, whatever the substantive policy focus.

**Title: Reinventing Retirement**

**Authors:** Michele Hayunga - Edited By Henry Quake, Alice Chinn, Tay Choo Yian, Josh Collett, Ed Johns, Matthew Suntag.

**Source:** AARP Office of International Affairs/ Council for the Third Age.

Promoting employment and engagement among older adults and developing new strategies to ensure adequate retirement income are critical strategies for the 21st century. The number of people worldwide age 60 and older is expected to triple by 2050, according to projections by the United Nations Population Division. This demographic shift will provide vast opportunities to capitalize on the talents and skills of older persons, but also create challenges in maintaining financial security for populations. While population aging is a nearly universal phenomenon, countries are at varying stages in the process. Japan already has a top-heavy population structure and is concerned with

providing income security for its older citizens. Singapore, which had a young population only 40 years ago, is fast following Japan's population pattern. China's population structure resembles a cube, so the goal is to maximize the value of its large, but soon-to-be-shrinking, workforce. In India, which has a young population today, the current challenge is providing enough jobs and housing. Yet, all of these countries must prepare for a growing population of older people who will be experiencing increasing longevity. Singapore's Prime Minister, Mr. Lee Hsien Loong, addressing the conference during the opening plenary, highlighted the need to embrace an aging population through adjustments in policy and the workplace environment, and a conscious change in social attitudes. This view is echoed by C3A Chairman, Mr. Gerard Ee, who noted that changing perceptions about retirement, employment, and aging requires a sustained, concerted effort from all stakeholders. Government, business, labor, NGOs, the media, and individuals all have a role to play. Adding to the complexity is the current global financial crisis, which disproportionately is impacting older adults. As Dr. William Hall, a member of the AARP Board of Directors, explained, competition for jobs and resources is intensifying at a time when many older adults have lost significant portions of their retirement assets. If there is a silver lining, it's that the current situation is driving countries to rethink outdated retirement systems, Dr. Hall noted in his opening remarks. Among highlighted best policies in this area is a feature of Singapore's mandatory savings scheme that provided stability to its population despite the downturn. The scheme requires contributions be invested chiefly in government-backed securities with guaranteed returns. In addition, the country has recently introduced the National Lifelong Income Scheme, which requires partial annuitization of pension schemes to ensure that people do not outlive their savings. Ultimately, each country must come to its own solutions steeped in its culture, demographics and stage of development. However, even amidst this diversity, a number of common themes emerge:

- The artificial silos of "work" and "retirement" must be broken down. Many people will live an additional 30 years after they reach traditional retirement age. One emerging trend is the notion of an "encore career" that balances income with social impact. India's Dignity Foundation, for example, has created an online portal to link older adults with paid work opportunities, as well as volunteer positions at NGOs. It also provides training in computer skills and interview etiquette. Similar initiatives are taking place in other countries.

Financial literacy and automatic pension features are becoming increasingly important as the responsibility for retirement planning shifts toward the individual. Studies show that most working adults are unaware of the opportunities and risks involved in investing and saving for their later years. Efforts like Singapore's national MoneySENSE program, which emphasizes life-long financial education through interactive tools, can empower individuals.

Extending working lives will play an important role in strengthening older adults' income security. Providing opportunities for prolonged working lives can alleviate labor shortages, help stabilize finances of social insurance systems, and bolster personal retirement savings. In some countries, the solution may be to raise formal retirement or pension-eligibility ages. For others, it may be a matter of creating better economic



incentives for both individuals and employers to save. Singapore, for example, has a formal retirement age of 62, but employers are now required to offer re-employment for up to an additional three years. The country also recently introduced an earned-income credit that is weighted in favor of older workers. Human resources strategies like flexible work arrangements, career development and health promotion can help workers remain productive longer. AARP recently recognized 10 companies internationally that have implemented age-friendly policies, including two Singaporean firms, Singapore Health Services Pte. Ltd. and Alexandra Hospital. For example, Singapore Health Services Pte. Ltd. employs a “Silver Connection Consultant” who offers guidance on career transitions and management of older workers. · Life-long learning and training are essential as work lives are extended. Unfortunately, older workers have fewer opportunities for continuing education because of overt and subtle discrimination. The United Kingdom has explored portable life-long learning schemes that are jointly funded by government, employers and employees. In the United States, older adults are turning increasingly to community colleges because of

their affordability and flexible schedules. Workplace design can help create productive and comfortable work environments for older adults. Some companies are investing in automation to alleviate job-related physical demands. Research also suggests that the right lighting, acoustics, ergonomics and individualized work spaces can help maximize older workers’ productivity. Ageist attitudes are a barrier to continued work and engagement, and all stakeholders must confront them. Governments and businesses can pass policies barring age discrimination and be proactive in ensuring training opportunities are evenly distributed. They can also join NGOs in public relations campaigns that show realistic and more positive images of older adults. The media has a responsibility, as well, not to further negative stereotypes. Policies aimed at helping older adults must be viewed through a broader lens. For example, in countries with high unemployment, extending the retirement age could heighten intergenerational tensions. Finding the right balance may require difficult trade-offs. At the same time, opportunities exist for intergenerational cooperation in childcare, education, environmental protection, and community organization. Asia is at the forefront of a worldwide demographic transition. The extent to which countries can tap into older adults’ potential as they age demographically will have a dramatic impact on their economic competitiveness and on the life-long quality of life of their individual citizens.